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4 **TESTIMONY OF JACQUELINE R. CHERRY**
5 **FOR**
6
7 **THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**
8
9 **DOCKET NO. 1999-002-E**
10
11 **IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY**
12
13

14 **Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
15 **OCCUPATION?**

16 **A.** My name is Jacqueline R. Cherry. My business address is 101 Executive Center
17 Drive, Columbia, South Carolina. I am employed by the Public Service Commission
18 of South Carolina, Accounting Department, as a utilities accountant.

19 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
20 **EXPERIENCE.**

21 **A.** I received a B. S. Degree in Business Administration, with a major in Accounting
22 from Johnson C. Smith University in 1976. I was employed by this Commission in
23 February 1979, and have participated in cases involving gas, electric, telephone,
24 water and wastewater utilities.

25 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
26 **PROCEEDING?**

27 **A.** The purpose of my testimony is to summarize the results of the Accounting Staff's
28 examination of South Carolina Electric & Gas Company's Fuel Adjustment Clause
29 operation for the period March 1998 through April 1999. The findings of the
30 examination are contained in the Accounting Department's section of the
31 Commission Staff Report.

1 **Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

2 **A.** The Accounting Department Staff traced the information as filed in the Company's
3 required monthly filing, to the Company's books and records. The current
4 examination covered the period March 1998 through April 1999. However, since
5 this current hearing was scheduled for April 1999, Staff's audit work did not
6 include any testing for the months of March and April 1999. The purpose of the
7 audit was to determine if South Carolina Electric & Gas Company had computed
8 and applied the monthly Fuel Adjustment Clause in accordance with the approved
9 clause. To accomplish this, Staff examined the components surrounding the
10 operation of the clause.

11 **Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE**
12 **SCOPE OF THE AUDIT?**

13 **A.** The examination consisted of the following:

- 14 1. Analysis of Account # 151 – Fuel Stock
- 15 2. Sample of Receipts to the Fuel Stock Account – Account # 151
- 16 3. Verification of Charges to Nuclear Fuel Expense, Account # 518
- 17 4. Verification of Purchased Power & Interchange
- 18 5. Verification of KWH Sales
- 19 6. Analysis of Spot Coal Purchasing Procedures
- 20 7. Review of the CSX Transportation Settlement Agreement
- 21 8. Recomputation of Fuel Adjustment Factor and Verification of Deferred
22 Fuel Costs
- 23 9. Recomputation of True-up for the (Over)Under-Recovered Fuel Costs
- 24 10. Details of Fuel Costs

25 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE REVIEW OF THE**
26 **CSX TRANSPORTATION SETTLEMENT AGREEMENT?**

27 **A.** PSC Order No. 98-209, Docket No. 98-115-E, dated March 19, 1998, granted South
28 Carolina Electric & Gas Company's (SCE&G or the Company) request for a
29 Commission accounting order, which would give SCE&G authorization to defer and

1 to amortize a one-time payment incurred by the Company as the result of a
2 Settlement Agreement, dated January 28, 1998, between SCE&G and CSX
3 Transportation, Inc. CSX Transportation is one of the railroads that delivers coal to
4 the Company's steam production facilities. The agreement calls for the Company to
5 make a one-time payment to the railroad. In return, the Company has received
6 reductions in coal freight rates, decreased minimum tonnage requirements and
7 certain other favorable financial and operating concessions that provide savings
8 substantially in excess of the one-time payment, according to SCE&G. By
9 agreement of the parties and Order of the U.S. District Court, the specific terms of
10 the agreement are confidential.

11 The Company proposed that it be allowed to defer the one-time payment by
12 charging Account No. 182.3 – Other Regulatory Assets. The balance in Account
13 No. 182.3 would be amortized monthly to Account No. 501 – Fuel Expense in an
14 amount equal to the savings realized through deliveries of coal at the reduced freight
15 rates. It is expected that this balance would be written off in approximately three
16 years, after which time the reductions in freight rates would serve to reduce ongoing
17 fuel costs. Meanwhile, according to the Company, the savings derived from other
18 provisions of the agreement, such as those resulting from decreased minimum
19 tonnage requirements, will be immediately reflected in lower fuel costs, and thereby
20 provide benefits to customers currently.

21 During this audit review period of the Company's fuel adjustment clause,
22 March 1998 through February 1999, Staff reviewed the freight savings, and thereby,
23 the amortized amounts, by comparing the original CSX Transportation contract
24 freight rates to the revised Settlement Agreement freight rates. Staff applied the
25 difference between the rates to the applicable railroad coal tonnage deliveries. The
26 amortized amount (freight savings) booked as of February 1999 to Account No. 501
27 totaled \$8,356,163.37.

1 **Q. WITH REGARD TO THE TRUE-UP OF (OVER)UNDER-RECOVERED**
2 **FUEL COSTS, WOULD YOU PLEASE ELABORATE ON STAFF'S**
3 **COMPUTATION?**

4 **A.** Staff analyzed the cumulative under-recovery of fuel costs that the Company had
5 incurred for the period March 1998 through February 1999 which totaled
6 \$1,303,094. Staff added the projected over-recovery of \$744,600 for the month of
7 March 1999 and the projected under-recovery of \$2,747,920 for April 1999 to arrive
8 at a cumulative under-recovery of \$3,306,414. The Company's cumulative under-
9 recovery as of April 1999, per its testimony in Docket No. 1999-002-E, totals
10 \$3,293,681. The difference between the Company's and the Staff's cumulative
11 under-recovery balances as of actual February 1999 and as of estimated April 1999
12 totals \$12,733. Staff's Purchased Power Costs figures for March 1998, April 1998
13 and November 1998 differs from the Company's figures. Staff's figures, per Staff's
14 report, reflect corrections for miscalculations made to purchased power costs. It
15 should be noted that Staff's corrections only changed the Deferred Fuel Entry for
16 April 1998. It should also be noted that the Company will true-up the cumulative
17 difference of \$12,733, on a per books basis, by the next fuel review period. As
18 stated in South Carolina Electric & Gas Company's Adjustment for Fuel Costs, fuel
19 costs will be included in base rates to the extent determined reasonable and proper
20 by the Commission. Accordingly, the Commission should consider the under-
21 recovery of \$3,306,414 along with the anticipated fuel costs for the period May 1,
22 1999 to April 30, 2000, for the purpose of determining the base cost of fuel in base
23 rates effective May 1, 1999. This \$3,306,414 under-recovery figure was provided to
24 the Commission's Utilities Department.

25 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING**
26 **STAFF EXHIBITS?**

27 **A.** Staff prepared exhibits from South Carolina Electric & Gas Company's books and
28 records reflecting fuel costs during the review period.
29 Specifically, these exhibits are as follows:

- 1 Exhibit A: Fossil Fuel Stock Report
- 2 Exhibit B: Received Coal-Cost Per Ton (Per Plant)
- 3 Exhibit C: Total Received & Weighted Average Cost
- 4 Exhibit D: Received Coal-Cost Per Ton Comparison
- 5 Exhibit E: Burned Cost-Consumed Generation
- 6 Exhibit F: Cost of Fuel
- 7 Exhibit G: Factor Computation
- 8 Exhibit H: Computation of Unbilled Revenue

9 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE ACCOUNTING**
10 **DEPARTMENT'S AUDIT?**

11 **A.** Based on the Accounting Staff's examination of South Carolina Electric & Gas
12 Company's books and records, and the utilization of the fuel cost recovery
13 mechanism as directed by the Commission, the Accounting Department is of the
14 opinion that the Company has complied with the directives (per the Fuel Adjustment
15 Clause) of the Commission.

16 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A.** Yes, it does.